



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Date Issued: October 19, 2017

IBA Report Number: 17-35

Budget and Government Efficiency Committee Date: October 25, 2017

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# Proposed Changes to the Reserve Policy: General Fund Reserve and Pension Payment Stabilization Reserve

Financial Management (FM) is requesting City Council approval for a number of suggested changes to the City's Reserve Policy including the following:

- New language which would allow the Mayor and/or the City Council to reevaluate and expedite the funding schedule for achieving General Fund Reserve goals in the event of budget surpluses. The IBA suggested this language in February 2017 in response to City Council approval of Financial Management's recommendation to *extend* the schedule for achieving the Reserve goals as a FY 2018 budget mitigation strategy.
- New language in the Pension Payment Stabilization Reserve (Pension Reserve) section which would allow the Pension Reserve to be utilized for *any* increase in the annual pension payment rather than restricting the use to *unanticipated* increases. In IBA Report 17-23 "Recommended Revisions to the Mayor's FY 2018 Budget" issued June 1, 2017, the IBA recommended that two sections of the current Pension Reserve Policy be reevaluated in the near future: 1) a review of the current 8% funding requirement, and 2) a review of the existing Pension Reserve language which restricts its use to unanticipated annual pension payment increases.

After the approval of the FY 2018 budget, FM and the Chief Financial Officer (CFO) met with our Office to discuss changes to the Pension Reserve as recommended in IBA Report 17-23, resulting in the proposed changes to the Pension Reserve currently submitted to the City Council for review and approval. In this report we offer additional suggestions for Reserve Policy language changes for Council consideration.

## OVERVIEW AND DISCUSSION

FM's proposed change to the Pension Reserve language is consistent with recommendations made in IBA Report 17-23, that the use of the Pension Reserve include *any* increase in the annual pension payment as opposed to only *unanticipated* increases. Our Office discussed this language with FM and we support the proposed changes which include:

- Continuing to restrict the use of the Pension Reserve to ADC pension payment increases, while broadening the definition of qualifying increases from “unanticipated increases” to “any increases.”
- Updating the calculation of the Pension Reserve. The current Reserve Policy states: “The City will fund and maintain a Pension Reserve equal to 8% of the most recent three year average of the ADC as reported in the Actuarial Valuation Reports by fiscal year 2016.” FM is requesting that Council approve a change to this requirement so that the 8% average is calculated from the **most recent** Actuarial Valuation Report instead of the FY 2016 report.

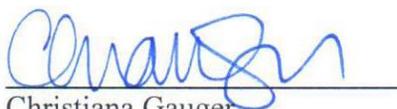
In IBA Report 17-23 our Office had recommended reconsideration of the Pension Reserve's 8% goal, which for FY 2019 is estimated to be \$22.4 million (\$17.3 million of which would be from the General Fund.) Rather than revisiting the Pension Reserve funding goal, and to provide greater budget flexibility in funding the Reserve in those years when there is a projected budget deficit, the Committee could consider revising the Policy language from “will” to “may”, and at an amount *up to* the current 8% goal:

“The City ~~will~~may fund and maintain a Pension Reserve ~~equal~~up to 8% of the most recent three year average of the ADC”.

## CONCLUSION

FM is requesting City Council approval for a number of changes to the City's Reserve Policy, including IBA-suggested changes to language regarding the funding schedule for the General Fund reserve goal, and modifications to the Pension Reserve to allow the Reserve to be used for any increase in the City's ADC pension payment. Our Office supports these changes.

In this report we also offer an additional Pension Reserve Policy language modification for Committee consideration that would allow the City to maintain the Pension Reserve while providing the Mayor and City Council some flexibility to forgo funding the Pension Reserve in those years when there is a projected budget deficit.

  
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